

# NFA



**PROTECTION**  
**That's Our Purpose**

2015 ANNUAL REVIEW





## 2015 Annual Review

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# A Letter from NFA's Chairman

Dear National Futures Association Members,

As my four years as Chairman of NFA's Board of Directors wind down, I would like to share with you some of what we've accomplished and where our organization stands as it readies itself for the future. I am proud to report to you that NFA has clearly and fully embraced its expanded regulatory role as entrusted to it by Congress, the Commodity Futures Trading Commission, our Members, and the public. It has never been stronger.

I've had the privilege of seeing NFA adapt to the expansion of many oversight responsibilities—from the addition of swap dealer and major swap participant Members to an influx of commodity pool operator Members. We now have more than 100 SD Members, the vast majority of which are large U.S. banks or financial institutions, foreign banks, or affiliates of one of those groups. NFA's CPO membership increased by approximately 600 firms—or 50 percent—and the number of pools operated by NFA Members rose from about 1,900 pools in recent years to more than 5,000. The net asset value for these pools also jumped from about \$400 billion to more than \$2 trillion. Our Market Regulation Department has tripled in size as we provide surveillance services for the vast majority of the newly created swap execution facilities.

Given these significant changes, it's not surprising that in these last four years NFA has increased the size of its Board, its staff and budget. Let me assure you that the debates surrounding all of these topics have been, shall we say, "healthy." Today, NFA has a staff of nearly 500. NFA's Board and its committees have continued to focus on delivering not only effective, but efficient regulatory programs. To ensure fiscal discipline with the expansion of responsibilities, the Board adopted policies that require each regulatory program including futures compliance, retail forex, market regulation and swaps regulation, to cover its costs. As a result of strong futures trading volume, the addition of the swap dealers, and our attention to delivering our programs in a cost-effective, risk-based manner, the Board was able to reduce the FCM assessment fee by 50 percent in 2014 while providing the public, our markets, and Members with effective self-regulation.

During my time as Chairman, our industry also faced extremely difficult challenges due to the collapse of MF Global and the uncovering of a multiyear fraud at Peregrine Financial Group. These two failures eroded the trust in both the regulators and marketplace itself. As hurtful as these lessons were, they helped us to improve and become a much stronger, more effective regulator. NFA and the CME Group implemented a number of significant customer protection measures. Most notably, the rule changes adopted by NFA and the CME Group that now provide for the daily confirmation of balances of all segregated customer funds and other rule changes marked huge steps in the protection of customer funds.



To further strengthen NFA's role in safeguarding market integrity, the Compliance Consultative Committee was rebranded to the Compliance and Risk Committee and it took on greater responsibilities. The CRC changed its focus to place a heightened emphasis on issues that may pose compliance and financial risks to customers and NFA's Member firms. This committee has had a strong track record of enacting a number of customer protection initiatives, especially in the retail forex space.



Cybersecurity has also become a greater priority during my time as Chairman due to the almost daily news about cybersecurity breaches at U.S. businesses. A similar breach at NFA could cause significant damage to NFA's Members, their customers and the markets. NFA continues to increase its cybersecurity preparedness, a major topic for financial regulators. We take a strong preventative approach to cybersecurity and regularly pursue new security initiatives as new potential vulnerabilities arise. On the following page, you'll find more about our latest cybersecurity initiatives.

When looking back at NFA's many successes during my time as Chairman, I'm reminded of Henry Ford's quote, "If everyone is moving forward together, then success takes care of itself." The successful performance of NFA's additional responsibilities is due, in part, to the devotion and focus of NFA's Board, the dedication and hard work of our staff, the effective oversight of the CFTC, and the highest levels of integrity demanded of all NFA Members. It's been an honor to serve NFA and its membership for the past four years, to be a part of carrying out NFA's mission and indeed, its expansion.

As we look forward, I am confident that NFA will continue to grow as successfully as it has during my time as Chairman. With a tremendously skilled staff, ever-evolving technology, and a strong financial foundation, NFA is poised to excel in whatever the future brings.

All the best and thank you!

A handwritten signature in black ink that reads "Christopher K. Hehmeyer". The signature is fluid and cursive, with the first name being the most prominent.

Christopher K. Hehmeyer  
*Chairman of the Board*

# Advancing Cybersecurity Measures

## Cybersecurity Guidance for Members

In light of the almost daily news about cybersecurity breaches, including at financial institutions, NFA developed guidance requiring Members to adopt and enforce procedures to secure both customer data and access to their electronic systems. As the Cybersecurity Interpretive Notice was developed, NFA shared it with all of NFA's advisory committees for their review and comments. All of the committees expressed their support for its content.



Because NFA Members range from large, multi-national corporations with ultra-sophisticated cybersecurity operations to one-man shops, this Interpretive Notice is flexible enough to be practical for all Members. It adopts a principles-based risk approach, and recognizes that, given the differences in Members' size and complexity of operations, there must be some degree of flexibility in determining what constitutes "diligent supervision" in this area for each firm.

One thing that's true for all firms is the Cybersecurity Interpretive Notice requires every Member to adopt and implement an information systems security program. NFA sets general standards for this implementation rather than requiring specific technology. Consequently, NFA leaves the exact form of supervision up to each Member, allowing Members to tailor security standards to their own situations.

To ensure that NFA Members understand their regulatory obligations in this area, NFA will provide a number of educational resources and work with Members that need additional guidance to help them adopt and enforce information security policies and procedures. ■

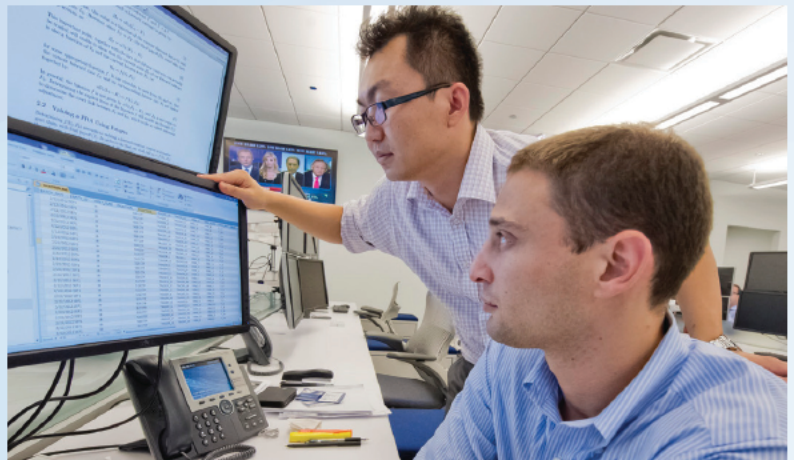
## Enhanced Cybersecurity at NFA

Safeguarding Member information is of primary importance for NFA. Cybersecurity continues to be a pressing issue for all organizations. Hacking techniques are advancing quickly both in terms of sophistication and accessibility. With these advances, cybersecurity threats are beginning to outpace even the best defenses designed to address them.

In response to these rapidly evolving cybersecurity threats, NFA has been aggressively pursuing a series of initiatives over the past year to enhance its security posture. For example, NFA is implementing enhanced intrusion-detection controls in order to identify malicious activity more quickly and

isolate it before further damage can be done. In addition, NFA is deploying internal safeguards to more effectively monitor the movement of sensitive data and guard against accidental or deliberate loss. Finally, NFA continues to make data encryption a priority and has implemented a program to encrypt key data in its various states.

Overall, NFA strives to keep its systems secure. Although cybersecurity threats are expected to evolve at an ever-increasing rate, NFA remains committed to seeking effective solutions to counteract them. ■





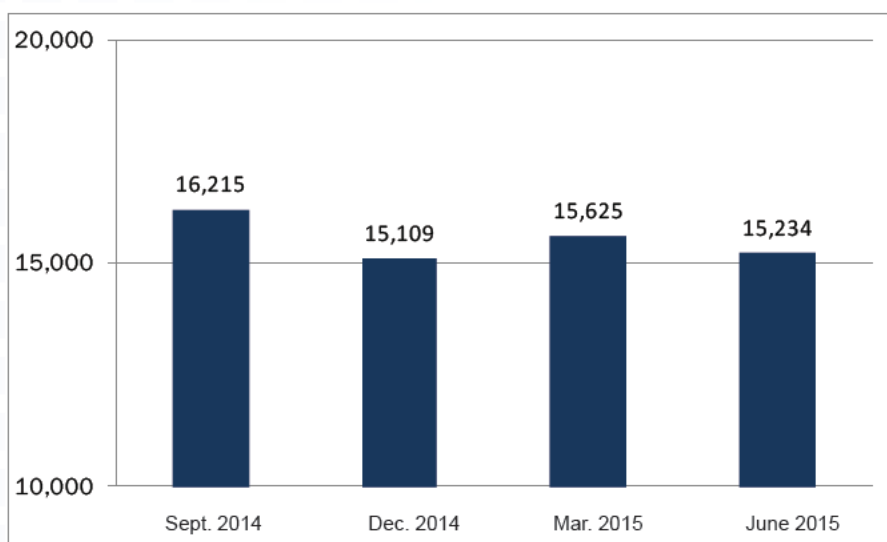
## Strengthening Technology

### Online Registration System Rebuild

To improve Members' experience with NFA's online tools, NFA is advancing the technology that drives its Online Registration System. ORS, originally launched in 2002, is a web-based application that allows firms and individuals to register with the CFTC and apply for NFA membership. To improve ORS' functionality, NFA developed a plan to rebuild ORS, modernizing the system's underlying web technology and improving user experience.

Given that ORS is primarily a tool for Members, NFA relied on Members' input to plan this rebuild. Through survey responses and focus groups, NFA staff used Member feedback to guide key ORS improvements. NFA also conferred with the CFTC and held numerous internal meetings to identify changes that will improve ORS functionality for all users. Based on extensive feedback, NFA prepared a detailed scope document and a comprehensive development plan. The rebuild will commence next fiscal year. ■

### Updates Made to the Online Registration System (During the Quarter Ending)



More than 540 Member firms responded to a survey on ORS functionality, providing helpful insight on possible improvements.

## FACTS Rebuild

Since originally introduced, NFA's FACTS system has been NFA's primary analytical system used to monitor a number of regulatory requirements. Today, FACTS is the cornerstone application for both futures and swaps compliance. This system consists of hundreds of unique screens and hundreds of thousands of lines of code.

With the influx of larger commodity pool operators, NFA experienced a significant increase in the number of pool financial statements that must be reviewed. While FACTS has consistently kept pace with changing regulatory requirements, the influx of CPOs and the reliance of the swaps department on this system necessitates a comprehensive rebuild to increase efficiency and improve design.

This multiyear rebuild began in Fiscal Year 2015, and will expand FACTS' reach and enhance the depth and quality of its analysis. The first phase of the FACTS rebuild focused on further automating the review of pool financial statements. This included the development of a text-analytics process to review footnotes and other text portions of the statements to identify potential problems.

These advanced technological solutions help NFA continue to operate as an effective and efficient regulator. ■

## Market Regulation/ Swap Execution Facilities

Currently, of the 21 swap execution facilities that are temporarily registered with the CFTC, 15 contract with NFA for regulatory services. After having worked with SEFs for nearly two years, NFA gained a better understanding of the resources needed to serve these clients. Given this knowledge, NFA implemented a tiered-pricing system to differentiate between higher-volume and lower-volume SEFs.

In addition, to increase efficiencies, NFA merged the SEF and designated contract market surveillance programs. Because both DCMs and SEFs essentially have the same surveillance requirements, with this update, NFA now only maintains one surveillance system for these clients. ■

**NFA screens all firms and individuals wishing to register with the CFTC and become NFA Members. In Fiscal Year 2015, NFA's Registration Department processed more than 650 firm registrations and approximately 11,500 individual registrations.**

# Strengthening Regulation

## Retail Forex Markets

When the Swiss National Bank unexpectedly abandoned its peg on the Swiss franc's exchange rate to the Euro in January 2015, market turmoil and losses incurred by forex dealer Members ensued. In response to the near collapse of an FDM Member, NFA expanded a number of regulatory requirements designed to minimize similar losses in the future.

NFA worked closely with CFTC staff and consulted with Member firms to develop appropriate changes to the FDM capital requirements, which were approved by the Board and the CFTC.

The increased capital requirements will take into account the risks associated with forex transactions between an FDM and eligible contract participant counterparties, especially those acting as foreign dealers. These measures further demonstrate NFA's commitment to protecting investors and safeguarding market integrity. ■



## Adjusting the Examination Program for FCMs

The CFTC amended CFTC Regulation 1.52 to provide, in part, that self-regulatory organization examination programs for futures commission merchants must meet the applicable standards set by the Public Company Accounting Oversight Board. Throughout the year, NFA worked with the CME Group to develop recommendations on the applicable standards for the CFTC's review, and modified the FCM examination programs to comply with the CFTC's new requirements. ■

## Governance: Amendments to NFA's Articles of Incorporation

NFA submitted amendments to NFA's Articles of Incorporation, which were approved by the membership, to the CFTC. These amendments will change the structure and composition of NFA's Board of Directors, reducing the size of the Board from 37 to 29 Directors. This streamlined Board structure will allow NFA's Board of Directors to continue to function both efficiently and effectively. This new structure will go into effect beginning in February 2016, at the Board's regular annual meeting. ■



# OTC Derivatives

Since the OTC Derivatives Department's inception in mid-2011, NFA has made great strides in developing a regulatory program to provide swap dealers and major swap participants with expert self-regulation.

At the start of last fiscal year, NFA planned to complete the development of the SD examination modules and conduct 35 on-site exams of SDs and MSPs. NFA exceeded that goal by 30 percent, performing 52 exams.

NFA also concluded its initial review of 4s submissions covering all topics subject to final CFTC rulemaking under the Section 4s Implementing Regulations of the Commodity Exchange Act. These 4s submissions, required for provisional registration, contained thousands of pages of detailed policies and procedures demonstrating compliance with the 4s requirements. NFA worked closely with NFA Members as these firms and individuals responded to feedback on their policies and procedures. NFA also collaborated with the CFTC as CFTC staff members provided feedback from their review of the submissions. ■

**NFA exceeded its goal of conducting 35 on-site exams of SDs and MSPs by 30 percent—performing a total of 52 exams.**

## Enforcement Actions

Enforcement of NFA rules is critical to the effectiveness of the self-regulatory process. In the past fiscal year:

- ▶ NFA's Executive Committee issued four member responsibility actions/associate responsibility actions to protect investors.
- ▶ NFA's Business Conduct Committee issued 37 Complaints against 67 respondents. Of these Complaints, a number were brought against firms for failing to establish and appropriately apply methodologies for allocating bunched orders and for not maintaining adequate and verifiable audit trails for allocations of bunched orders. NFA also issued Complaints against firms that employed trading strategies designed to generate large commissions for the firms but made little or no financial sense for customers. In addition, NFA issued several Complaints against commodity pool operators who received prohibited loans or advances from pools that they operated.
- ▶ NFA's disciplinary panels issued 39 Decisions, and ordered 20 expulsions and eight suspensions.
- ▶ NFA collected \$2.5 million in fines.

NFA continued its longtime participation in regular meetings of the U.S. Department of Justice's Securities and Commodities Fraud Working Group and local enforcement liaison meetings with the U.S. Attorney's Office, Federal Bureau of Investigations, U.S. Postal Inspector's Office, CFTC regional office, and the Illinois Department of Securities. Over the years, NFA's work with these agencies has resulted in a number of criminal prosecutions. In the past year alone, prison sentences of up to 20 years were handed out in seven cases that were a direct result of NFA's investigation efforts. ■

# Providing Education

## Learning Opportunities for Members

Over the course of the year, NFA used a variety of media to present Members with helpful information intended to keep them abreast of their regulatory responsibilities and help them maintain compliance with NFA and CFTC rules.

### Conferences

NFA staff led eight Member education programs across the country and in London. The goal of these conferences was to meet with Members in-person to discuss the latest regulatory trends and rules affecting them, provide guidance, and answer any questions they may have. The conference topics included the current regulatory state of the industry, NFA's examination process, performance reporting, and financial reporting requirements. A key component of the conferences was the presence of Ronald Filler, a public representative on NFA's Board of Directors and a lawyer with expertise in derivatives regulation. Mr. Filler was integral to discussions regarding the current state of regulation.

**In total, nearly 1,000 individuals benefited from the learning opportunities NFA offered last year.**

### Board Update Videos

New in fiscal year 2015, NFA began producing videos after each quarterly Board meeting to keep NFA Members apprised of the important topics discussed by NFA's Board. In these videos, NFA Chairman Christopher Hehmeyer and President Daniel Roth discuss highlights and other notable information from Board meetings.

### Inaugural Town Hall Webinar

NFA conducted its first annual town hall webinar for Members in March 2015. During the 60-minute webinar, NFA Chairman Christopher Hehmeyer; Public Director Ronald Filler; President Daniel Roth; and other NFA officers responded to questions submitted by Member participants. Nearly 300 individuals attended this webinar. ■

Visit NFA's website,  
**[www.nfa.futures.org](http://www.nfa.futures.org)**,  
to access all of NFA's  
Member education materials.



## Information Center

During the past fiscal year, NFA's Information Center—a service NFA offers to Members and the investing public—received more than 35,000 calls.

## Fitness Investigation Cases

NFA's Fitness Group opened more than 2,200 cases in the past year. These fitness investigation cases are due to fingerprint card results, answers to a disciplinary history question on the application, or regulatory information obtained during NFA's background checks.

## Restitution

NFA's restitution program disbursed more than \$1.7 million to more than 250 harmed investors in Fiscal Year 2015. Because NFA does not charge fees for administering this restitution service, fraud victims are returned the maximum amount of money possible.



# BOARD OF DIRECTORS

## Directors



**Christopher K. Hehmeyer\***  
Chairman of the Board  
Non-executive Director  
Wedbush Futures



**Michael C. Dawley\***  
Vice-Chairman of the Board  
Managing Director  
Goldman Sachs & Co

## Commodity Pool Operators & Commodity Trading Advisors



**Douglas L. Bry\***  
Senior Strategist  
Welton Investment  
Partners LLC



**Adam C. Cooper**  
Senior Managing Director  
and Chief Legal Officer  
Citadel



**Ernest L. Jaffarian\***  
CEO/CIO  
Efficient Capital  
Management LLC



**James L. Koutoulas**  
Chief Executive Officer  
Typhon Capital  
Management LLC



**John L. Roe**  
President  
Roe Capital  
Management Inc

## Futures Commission Merchants



**Gerald F. Corcoran\***  
Chief Executive Officer  
R J O'Brien &  
Associates, Inc



**Scott A. Cordes**  
President  
CHS Hedging LLC



**Michael C. Dawley\***  
Managing Director  
Goldman Sachs & Co



**Maureen C. Downs**  
President  
Rosenthal Collins  
Group LLC



**Christopher K. Hehmeyer\***  
Non-executive Director  
Wedbush Futures



**William F. McCoy**  
Managing Director  
Morgan Stanley



**Antonio R. Miras**  
Managing Director and  
America Head-Futures,  
Clearing and Collateral  
Citigroup Global Markets, Inc

## Contract Market Directors



**Mark G. Bagan**  
President and Chief  
Executive Officer  
Minneapolis Grain Exchange



**David S. Goone\***  
Senior Vice President  
Chief Strategic Officer  
IntercontinentalExchange  
Inc



**John F. Sandner\***  
Special Policy Advisor  
Retired Chairman of the Board  
CME Group Inc

*\*Member of the Executive Committee*

## Public Representatives



**Andrea M. Corcoran**  
*Principal*  
Align International LLC



**Ronald H. Filler\***  
*Professor of Law*  
New York Law School



**Douglas E. Harris\***  
*Managing Director*  
Promontory Financial  
Group LLC



**Jim Marshall**  
*Washington, D.C.*



**Michael H. Moskow\***  
*Vice Chair and  
Distinguished Fellow*  
The Chicago Council on  
Global Affairs



**Charles P. Nastro**  
*New York, N.Y.*



**Ronald S. Oppenheimer\***  
*Senior Vice President and  
General Counsel, Vitol Inc*



**Todd E. Petzel\***  
*Chief Investment Officer*  
Offit Capital Advisors LLC



**Susan M. Phillips**  
*Arlington, Va.*



**Michael R. Schaefer**  
*New York, N.Y.*



**Jill E. Sommers**  
*Senior Advisor*  
Patomak Global Partners

## Swap Dealers & Major Swap Participants



**Robert P. Burke**  
*Managing Director*  
Bank of America  
Merrill Lynch



**Oliver Jakob**  
*International Chief Risk Officer*  
Mitsubishi UFJ Securities  
(USA) Inc



**Charlotte B. McLaughlin\***  
*President and Chief  
Executive Officer*  
PNC Capital Markets LLC



**Martin Nance**  
*Chief Compliance Officer*  
Cournot Financial  
Products LLC



**Philip A. Olesen**  
*Managing Director and  
Global Head of Credit Trading*  
UBS Securities LLC



**Don Thompson\***  
*Managing Director and  
Associate General Counsel*  
JPMorgan Chase & Co



**Sheryl M. Wallace**  
*Vice President,  
Cargill Risk Management*  
Cargill, Inc



**Michael T. Burke**  
*Chief Executive Officer*  
HighGround Trading LLC



**Paul J. Georgy**  
*President*  
Allendale Inc



**Leo Melamed**  
*Permanent Special Advisor  
to the Executive Committee  
& Board of Director*  
*Chairman Emeritus*  
CME Group Inc  
*Chairman & CEO*  
Melamed & Associates

## Introducing Brokers

# 2015 FINANCIALS

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
National Futures Association

We have audited the accompanying financial statements of National Futures Association, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of unrestricted revenues, expenses and changes in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Futures Association as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Chicago, Illinois  
October 23, 2015



National Futures Association  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
CURRENT ASSETS		
Cash and cash equivalents	\$ 57,226,266	\$ 48,334,234
Short-term investments	59,170,028	52,687,785
Assessments receivable	2,325,461	4,477,992
Other current assets, net	1,657,953	3,929,553
Total current assets	<b>120,379,708</b>	<b>109,429,564</b>
FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET	17,737,624	16,878,037
OTHER ASSETS	800,601	1,065,809
<b>TOTAL ASSETS</b>	<b>\$138,917,933</b>	<b>\$127,373,410</b>

**Liabilities And Unrestricted Net Assets**

CURRENT LIABILITIES		
Unearned dues and fees	\$ 5,741,830	\$ 8,734,028
Accounts payable, accrued expenses and other current liabilities	4,280,275	6,170,914
Total current liabilities	<b>10,022,105</b>	<b>14,904,942</b>
DEFERRED RENT CREDIT	5,924,457	6,738,075
OTHER LONG-TERM LIABILITIES	7,894,575	6,814,902
Total liabilities	<b>23,841,137</b>	<b>28,457,919</b>
UNRESTRICTED NET ASSETS	115,076,796	98,915,491
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$ 138,917,933</b>	<b>\$127,373,410</b>

*The accompanying notes are an integral part of these statements.*

National Futures Association

**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES  
AND CHANGES IN UNRESTRICTED NET ASSETS**

Years ended June 30, 2015 and 2014

	2015	2014
<b>UNRESTRICTED REVENUES</b>		
Assessments	\$ 33,200,717	\$ 52,061,285
Membership dues	43,687,984	38,402,106
Registration and other fees	4,659,711	7,536,017
Regulatory services outsourcing	10,347,300	11,351,749
Investment income	913,458	2,217,157
<b>TOTAL UNRESTRICTED REVENUES</b>	<b>92,809,170</b>	<b>111,568,314</b>
<b>UNRESTRICTED EXPENSES</b>		
Salaries, wages and employee benefits	56,465,441	50,392,177
Space rental and related expenses	3,280,979	3,833,077
Travel and meetings	3,086,588	2,549,482
Computer expenditures	1,905,103	1,783,166
Depreciation and amortization	6,074,577	4,619,829
Outside consulting fees and services	2,791,455	2,869,618
Supplies, postage and telephone	304,774	296,677
Outside printing and publications	83,591	111,179
Board and committee fees and expenses	659,085	638,450
Insurance, recruiting, education, dues and other	1,996,272	2,274,014
<b>TOTAL UNRESTRICTED EXPENSES</b>	<b>76,647,865</b>	<b>69,367,669</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>16,161,305</b>	<b>42,200,645</b>
Unrestricted net assets at beginning of year	98,915,491	56,714,846
Unrestricted net assets at end of year	\$115,076,796	\$98,915,491

National Futures Association  
**STATEMENTS OF CASH FLOWS**  
Years ended June 30, 2015 and 2014

	2015	2014
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 16,161,305	\$ 42,200,645
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Net unrealized gain on investments	(289,939)	(1,825,288)
Depreciation and amortization	6,074,577	4,619,829
Changes in assets and liabilities		
Assessments receivable	2,152,531	(62,604)
Other assets	2,536,808	(2,137,464)
Unearned dues and fees	(2,992,198)	548,576
Accounts payable, accrued expenses and other liabilities	(810,966)	3,030,381
Deferred rent credit	(813,618)	3,127,088
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>22,018,500</b>	<b>49,501,163</b>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and software	(6,934,164)	(11,125,630)
Purchase of investments	(6,192,304)	(15,791,869)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(13,126,468)</b>	<b>(26,917,499)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>8,892,032</b>	<b>22,583,664</b>
Cash and cash equivalents at beginning of year	48,334,234	25,750,570
Cash and cash equivalents at end of year	\$57,226,266	\$48,334,234

*The accompanying notes are an integral part of these statements.*

National Futures Association  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015 and 2014

**NOTE A**

**ORGANIZATION**

The Commodity Futures Trading Commission has designated National Futures Association (the Association) as a registered futures association. Among the Association's activities are qualification screening and registration, financial and trade practice surveillance, enforcement of customer protection rules and uniform business standards, arbitration of disputes and educational activities. The Association is primarily financed through the payment of assessments and dues by its members and registration fees by registrants.

**NOTE B**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The financial statements of the Association have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Assessments**

Assessments are reported monthly and are due within 30 days. They are recognized as revenue in the month to which they apply. Amounts reported, but not yet collected, are recognized as assessments receivable on the accompanying statements of financial position.

**Membership Dues**

Membership dues are non-refundable and are recognized as revenue on a pro rata basis over each member's membership year. Amounts received but not yet earned are recognized in unearned dues and fees on the accompanying statements of financial position.

**Registration Renewal Fees**

Registration renewal fees are non-refundable and are recognized as revenue on a pro rata basis over each registrant's renewal period. Amounts received prior to the event are recognized in unearned dues and fees on the accompanying statements of financial position.

**Regulatory Services Outsourcing**

Regulatory services outsourcing revenue relates to the Association's trade practice and market surveillance services. This revenue consists of non-refundable start-up fees and monthly maintenance fees for ongoing services for each customer. Fees are used by the Association to purchase hardware and software

necessary to perform surveillance services for a given customer and are recognized as revenue when paid by the customer. Monthly fees for ongoing surveillance and other regulatory services are recognized as revenue on a monthly basis as services are performed.

**Furniture, Fixtures, Equipment & Leasehold Improvements**

The Association capitalizes individual purchases greater than \$1,000 and group purchases greater than \$10,000.

Furniture, fixtures, equipment and leasehold improvements are depreciated over three to seven years or the term of the lease, if applicable, on a straight-line basis. The Association uses the half-year convention so that the first and last years of depreciation and amortization are one-half the straight-line amount and all middle years are in direct proportion to the useful life of the capitalized item. Additionally, the Association has artwork that is considered non-depreciable, included in note E, valued at \$286,830 for 2015 and 2014.

**Purchased Software**

Purchased software is included in fixed assets, and is capitalized and amortized over three years on a straightline basis using the half-year convention.

**Software Design and Development Costs**

Software design and development costs consist of salaries and benefits of the Association's personnel involved in projects to develop software for internal use. Software design and development costs incurred in the preliminary stage of a project, as well as training and maintenance costs, are expensed as incurred. Software design and development costs associated with the application development stage of software projects are capitalized until such time as the software is substantially complete and ready for its intended use. Capitalized software design and development costs are amortized over three years on a straight-line basis using the half-year convention.



### Deferred Rent Credit

Due to the terms of the Association's primary office space leases, a deferred rent credit was generated. The deferred rent credit is amortized over the remaining terms of the respective leases, which range from one to twelve years. The Association has computed an average monthly rental for the entire term of each lease and charges this amount to rental expense each month. The difference between the average monthly rental and the actual monthly rental payment is accounted for as either an increase or reduction of the deferred rent credit on the accompanying statements of financial position.

### Allowance for Doubtful Accounts

The allowance for doubtful accounts, which is related to membership dues receivable, registration revenue receivable and regulatory fines, is maintained at a level that management deems adequate to provide for estimated uncollectible receivables and is based on the length of time receivables have been outstanding, historical experience and an assessment of business economic conditions. At June 30, 2015 and 2014, the allowance for doubtful accounts is \$82,695 and \$67,925, respectively. This allowance is a reduction of receivables, which are included in other current assets, net on the accompanying statements of financial position.

### Fair Value Measurements

The Financial Accounting Standards Board (FASB) has issued guidance that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and specifies disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

**Level 1**—Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

**Level 2**—Pricing inputs are other than quoted prices in active markets for identical assets or liabilities, which are either directly or indirectly observable as of the report date. These securities include investments for which quoted prices are available but are traded in

an inactive market or investments that are fairly valued using other securities, the inputs for which can be directly observed.

**Level 3**—Securities that are valued using significant unobservable inputs. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable requires significant judgment by the Association. The Association considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

All of the Association's investments have values that are based on quoted market prices in active markets and are therefore classified as Level 1. These investments include equity and fixed income mutual funds. The Association does not adjust the quoted price for such instruments, even in situations where the Association may hold a large position and a sale could reasonably impact the quoted price.

### Federal Income Taxes

The Association has received a favorable determination letter from the Internal Revenue Service stating that the Association is exempt from federal income taxes under the provisions of Section 501(c)(6) of the Internal Revenue Code of 1986, except for income taxes pertaining to unrelated business income. The FASB issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined that there are no material uncertain positions that require recognition in the financial statements, and has properly accrued a provision for excise taxes. There is no interest or penalties recognized in the statements of unrestricted revenues, expenses and changes in unrestricted net assets. The tax years ended 2011, 2012, 2013 and 2014 are still open to audit for both federal and state purposes.

## NOTE C

### CASH AND CASH EQUIVALENTS

The Association considers investments with an original maturity of less than three months to be cash equivalents. The Association maintains cash balances at financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the balances in these accounts may exceed the insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

## NOTE D

### INVESTMENTS

The Association's investment portfolio is classified on the statements of financial position as short-term and long-term investments. Short-term investments consist of securities with maturity dates of one year or less. Long-term investments consist of securities with maturity dates greater than one year. Also included as short-term investments is the Association's investment in equity and fixed income mutual funds. As of June 30, 2015 and 2014, the Association did not own any long-term investments.

*The aggregate fair value of investments by major type as of June 30, 2015 and 2014, are as follows:*

	2015	2014
<b>SHORT TERM INVESTMENTS</b>		
Developed Markets Index Fund	\$ 2,804,313	\$ 2,732,614
Extended Markets Signal Index Fund	3,103,809	2,824,734
Short Term Treasury Fund	46,992,283	41,419,892
S&P 500 Index Mutual Fund	6,269,623	5,710,545
<b>TOTAL INVESTMENTS</b>	<b>\$59,170,028</b>	<b>\$52,687,785</b>

For its four mutual funds, the Association immediately reinvests all interest income, dividend income and capital gains back into the funds.

*For the years ended June 30, 2015 and 2014, the activities in the funds and the self-directed securities were as follows:*

	2015	2014
Income reinvested back into mutual funds	\$623,479	\$391,869
Net unrealized gain on mutual funds	289,939	1,825,288
<b>TOTAL INVESTMENT RETURN</b>	<b>\$913,418</b>	<b>\$2,217,157</b>

## NOTE E

### FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE

*At June 30, 2015 and 2014, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization are as follows:*

	2015	2014
Furniture and fixtures	\$ 2,278,210	\$ 3,805,168
Equipment	6,376,406	6,163,877
Leasehold improvements	11,508,909	11,531,520
Software	10,682,835	7,111,117
Total furniture, fixtures, equipment, leasehold improvements and software	30,846,360	28,611,682
Less accumulated depreciation and amortization	13,108,736	11,733,645
<b>FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET</b>	<b>\$17,737,624</b>	<b>\$16,878,037</b>

## NOTE F

### COMMITMENTS AND CONTINGENCIES

The Association leases office space in Chicago and New York. The current Chicago lease expires on August 31, 2023. The new lease for the New York office expires June 30, 2023.

*The following is a schedule of future payments under both of the operating leases and the disaster recovery service contract that have remaining non-cancellable payment terms as of June 30, 2015:*

Years ending June 30	
2016	2,838,683
2017	2,874,943
2018	2,912,157
2019	2,950,339
2020	3,288,482
Thereafter	12,655,998
<b>TOTAL OPERATING LEASE COMMITMENTS</b>	<b>\$27,520,602</b>

In the normal course of business, the Association is, at times, involved in pending legal proceedings. Management, after consultation with outside legal counsel, believes that the resolution of current proceedings will not have a material effect on the Association's net assets.

## NOTE G

### EMPLOYEE BENEFIT PLANS

The Association sponsors an Employee Retirement Savings Plan (the Savings Plan). Contributions to the Savings Plan of up to 100% of employees' compensation can be made through payroll deductions, subject to IRS elective deferral limits. The Association will match employee contributions up to 6% of the employee's eligible compensation. The Association may also contribute to the Savings Plan an additional profit-sharing contribution expressed as a percent of the calendar year's compensation of participants who are employed on the last day of the calendar year. A profit-sharing contribution for 2014 of \$1,864,445 was made in 2015. A profit-sharing contribution for 2013 of \$1,553,679 was made in 2014. Employees are eligible to participate in the Savings Plan upon their date of hire. Employee contributions and any vested employer contributions are payable upon termination or retirement as stipulated in the Savings Plan.

The Association also sponsors the Retiree Medical Benefits Plan (the Plan), which covers substantially all retirees and their dependents. Effective December 31, 1993, employees who retire from the Association on or after attaining age 55 and who have at least 10 years of full-time service with the Association are entitled to receive benefits from the Plan. Individuals who attained age 65 on or before December 31, 1993, who have been employed by the Association on a full-time basis for at least five years, and who retired after July 1, 1993, were grandfathered under the Plan. The Plan pays a stated percentage of the cost of medical coverage for employees who retire prior to age 65. Coverage for employees who have retired and have reached age 65 is not provided by the Association; instead, Medicare-eligible participants can purchase individual supplemental coverage. The Association will reimburse the cost of Medicare supplemental coverage up to an indexed monthly maximum benchmark amount (\$359.15 per person per month in 2015), reduced by a service-related percentage (the reduction is shown in the table below).

*Subsequent to July 1, 2003, the structure is based on age at retirement as follows:*

Age	Reduction %	
	Pre-65	Post-65
55-59	70 %	40%
60-64	60	30
65 plus	50	20

*At June 30, 2015 and 2014, the actuarial and recorded liabilities for the Plan, none of which has been funded, and the net periodic post-retirement benefit cost and benefits paid for the Plan that are included in other long-term liabilities, were as follows:*

	2015	2014
AMOUNTS RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION		
Accumulated post-retirement benefit obligations	\$(6,179,188)	\$(7,548,747)
Unrecognized prior service cost	(2,763,787)	(193,691)
Unrecognized net loss	1,051,389	917,263
Unrecognized transition obligation		19,243
<b>ACCRUED POST-RETIREMENT BENEFIT COST</b>	<b>\$(7,891,586)</b>	<b>\$(6,805,932)</b>



The estimated net periodic post-retirement benefit cost for the Plan for the year ended June 30, 2015, is \$1,151,587. The breakdown of the cost is as follows:

Net periodic post-retirement benefit cost	
Service cost	\$ 779,158
Interest cost	359,053
Amortization of transition obligation	19,243
Amortization of prior service cost	(24,481)
Net loss amortization	18,614
<b>TOTAL NET PERIOD POST-RETIREMENT BENEFIT COST</b>	<b>\$1,151,587</b>

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 4.10% at June 30, 2015, and 4.35% at June 30, 2014. The rate of increase in the gross cost of covered health care benefits was assumed to be 6.25% for fiscal year 2015. The rate of increase is assumed to decline by 0.25% for each year after 2015, to 5.00% in 2020 and after.

The Association also participates in the purchase of life insurance on behalf of certain executive officers (Executives) as part of the National Futures Association split-dollar life insurance plan (the Split-Dollar Plan). The purpose of the Split-Dollar Plan is to provide participating Executives with an insured death benefit during employment and after retirement. The insurance policy also allows for capital accumulation through the buildup of cash value. Upon termination of employment, death or maturity of the policy, the Association receives cash value equal to the cumulative premium paid by the Association. As of June 30, 2015 and 2014, the cumulative premium paid on behalf of the Executives is \$786,726 and \$729,025, respectively, and is classified in other assets on the accompanying statements of financial position.

## NOTE H

### DEFERRED RENT CREDIT

Effective November 2001, the Association executed a 10-year operating lease for office premises in New York. Also, effective January 2008, the Association executed a 12-year operating lease for office premises in Chicago. In December 2011, the Association extended its Chicago lease by 44 months, through August 2023. Also, in October 2012, the Association extended its New York lease by eight months, through December 2013. The Association's New York office relocated in November 2013 and a new lease has been entered into for this space. The leases include rent incentives and, accordingly, the Association recognizes such abatement as an adjustment to a deferred rent credit over the terms of the lease on a straight-line basis. The total deferred rent credit at June 30, 2015 and 2014, was \$6,689,069 and \$7,442,984, respectively, of which \$764,612 and \$704,909, respectively, are included in accounts payable, accrued expenses and other current liabilities on the accompanying statements of financial position.

For the years ended June 30, 2015 and 2014, the Association's rent expense was as follows:

	2015	2014
Cash payments for rent	\$ 3,571,299	\$ 2,670,546
(Less) add amortization of deferred rent credits	(756,587)	778,581
<b>RENT EXPENSE</b>	<b>\$2,814,712</b>	<b>\$3,449,127</b>

## NOTE I

### SUBSEQUENT EVENTS

The Association evaluated its June 30, 2015, financial statements for subsequent events through October 23, 2015, the date the financial statements were available to be issued. The Association is not aware of any subsequent events that require recognition or disclosure in the financial statements.

## Officers



**Daniel J. Roth\***  
*President & CEO*



**Daniel A. Driscoll**  
*Exec. Vice-President  
Chief Operating Officer*



**Thomas Sexton III**  
*Sr. Vice-President  
General Counsel & Secretary*



**Regina Thoele**  
*Sr. Vice-President  
Compliance*



**Karen K. Wuertz**  
*Sr. Vice-President  
Strategic Planning &  
Communications*



**David Hawrysz**  
*Sr. Vice-President  
Chief Financial Officer  
Treasurer*



**Edward J. Dasso**  
*Vice-President  
Market Regulation*



**Jamila Piracci**  
*Vice-President  
OTC Derivatives*



**Timothy J. McHenry**  
*Vice-President  
Information Systems*



**Yvette Christman**  
*Vice-President  
Membership & Registration*

## About NFA

National Futures Association has been designated by the Commodity Futures Trading Commission as a registered futures association. NFA is the premier independent provider of innovative and efficient regulatory programs that safeguard the integrity of the derivatives markets. NFA is completely self-financed with funds derived from membership dues and fees, and from assessments paid by Members and users of the derivatives markets.

## NFA at a Glance

At the end of Fiscal Year 2015, NFA had a total of 4,026 Members and more than 55,700 Associate Members. Here is a breakdown of NFA membership by highest class:

<b>Swap Dealers:</b>	<b>101</b>
<b>Major Swap Participants:</b>	<b>1</b>
<b>Retail Foreign Exchange Dealers:</b>	<b>5</b>
<b>Futures Commission Merchants:</b>	<b>62</b>
<b>Introducing Brokers:</b>	<b>1,268</b>
<b>Commodity Pool Operators:</b>	<b>1,597</b>
<b>Commodity Trading Advisors:</b>	<b>986</b>
<b>Exchanges:</b>	<b>6</b>

## Total Employees

(as of June 30, 2015):  
489





NFA INFO CENTER

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NFA WEBSITE

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